

SUMMARY ANALYSIS OF AMENDED BILL

Author: Gaines Analyst: Scott McFarlane Bill Number: SB 556
 Related Bills: None Telephone: 845-6075 Amended Date: May 11, 2011
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Exclusion of Gain on Qualified Small Business Stock

SUMMARY

This bill would increase the percentage exclusion of gain on California qualified small business stock to 100 percent for stock acquired in calendar year 2011 and held for five years, and no amount of such exclusion would be subject to the California alternative minimum tax (AMT).

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

SUMMARY OF AMENDMENTS

The May 11, 2011, amendments removed language that appeared to be intended to conform to the federal 100-percent exclusion of gain on U.S. qualified small business stock acquired in 2011 and held for five years, and instead would provide a 100-percent exclusion of gain on California qualified small business stock acquired in 2011 and held for five years, and would additionally provide that no amount of such exclusion would be subject to the California AMT.

As a result of the amendments, the "PURPOSE OF THE BILL," "EFFECTIVE/OPERATIVE DATE," "THIS BILL," "ECONOMIC IMPACT," and "ARGUMENTS" sections have been revised, a "POLICY CONCERN" section has been added, and the "Technical Considerations" no longer apply. The remainder of the department's analysis of the bill as introduced February 17, 2011, still applies.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to stimulate small business investment and job creation in California.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately, and would be specifically operative with respect to stock acquired during the 2011 calendar year.

Board Position:

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Legislative Director

Date

Brian Putler

05/18/11

ANALYSIS

THIS BILL

This bill would increase the percentage exclusion of gain on California qualified small business stock from 50 percent to 100 percent for stock acquired in calendar year 2011 and held for five years. Additionally, this bill would provide that the California qualified-small-business-stock minimum tax preference would not apply to such stock; in other words, no amount of excluded gain on California qualified small business stock acquired in calendar year 2011 and held for five years would be subject to the California AMT.

ECONOMIC IMPACT

Estimated Revenue Impact of SB 556 as Amended May 11, 2011 Enactment Assumed After June 30, 2011 (\$ in Millions)					
2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
\$0	\$0	\$0	\$0	-\$34	-\$28

ARGUMENTS

Pro: Proponents would argue that this bill would encourage entrepreneurial growth in California, expand the state's economy, and create jobs.

Con: Opponents would argue that it would be near the end of calendar year 2011 before this bill would be enacted; thus, its intent to encourage investment in California qualified small business stock in 2011 would be substantially minimized, and a majority of the bill's revenue loss would be attributable to behavior that occurred before the bill's enactment date.

POLICY CONCERN

The exclusion of gain on the sale or exchange of California qualified small business stock requires that for substantially all of the taxpayer's five-year holding period, the corporation issuing the stock has at least 80 percent of its property and payroll attributable to California. Some taxpayers are currently arguing that these California requirements discriminate against interstate commerce and are therefore unconstitutional.

LEGISLATIVE STAFF CONTACT

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